



HIGHLIGHTS OF THE FIRST YEAR OF CONTROLS

PRICES AND PROFITS

One of the primary goals of the Anti-Inflation Board is to break "inflation expectation". A successful anti-inflation program means that it is no longer necessary to demand exorbitant salary increases in order to protect ourselves against anticipated escalation in the rate of inflation.

Here is what has been happening in the fight to curtail prices and profits increases:

Price increases are declining

- from an average 8.6 per cent in January/February, 1976, to 5.2 per cent by September, 1976, based on requests by companies required to pre-notify the AIB of proposed price increases. In the first 11 months the AIB had reviewed 1,000 price pre-notification applications: 983 were within the guidelines; 17 were not allowed. Many of the 983 were modified after discussions between the companies and AIB staff and before formal applications were made. The Board feels that this is a strong indication that the spirit and letter of the regulations are being followed.

Profit margins are declining

- from 6.3 per cent for the first half of 1975 to 5.5 per cent for the same period of 1976.

Excess revenue has been identified

- which companies are turning back to the customer in one way or another, such as price reductions or keeping prices stable in spite of rising costs until the excess revenue has been absorbed. By the end of August, 1976, the AIB had identified 98 cases of excess revenue for an aggregate total of \$9 million. Once this excess revenue (revenue in excess of the profit guidelines established by the Board) has been identified, the company submits to the Board a proposal for eliminating the excess.

Dividends are being restrained

- generally to the same level as prior to the control period (under the AIB Guidelines, companies generally may not pay dividends above their base period levels).

Over the first 11 months the Board reviewed 190 dividend cases. Ninety-two requested increases totaling an excess of \$398 million; almost \$350 million was refused; about \$50 million was allowed because of special circumstances.

Professional fees are monitored

- as of late September, 1976, out of a possible 40,000 firms of professionals the Board had received 23,134 reports covering 40,596 practitioners (owners or part-owners of a firm) and 14,533 professional employees. Because of the complex structure and operation of professional firms the AIB does not yet have complete information. In the case of doctors, the mechanism for monitoring works through provincial medical payment schedules. More than 14,000 doctors in eight provinces are setting fees in accordance with provincial fee schedules approved by the AIB. These fees represent increases over previous fee schedules ranging from 7.44 per cent for Saskatchewan to 9.15 per cent for Manitoba.

CONCLUSION

The goals of the anti-inflation program for the first year have been met:

- Prices, as measured by the Consumer Price Index, increased by 6.5 per cent between September 1975 and September 1976, making it clear that the price target of 8 per cent for the first 12 months would be bettered.
- Wage increases, calculated as the "average annual percentage increase in base rates", decelerated to 9.7 per cent in the third quarter of 1976 compared with the year earlier figure of 17 per cent. (These data from Labour Canada reflect AIB decisions only with a considerable lag.)

The AIB report of the first year of operation says the second-year goal - to reduce the rate of increase in the CPI to six per cent or less by October 1977 - is attainable.

The success of the program over the next year will depend on business, labour and government adhering to the anti-inflation guidelines. With this co-operation, and the maintenance of prudent monetary and fiscal policies, further improvement in line with the targets of the program can be achieved.

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CONTROLS - ONE YEAR LATER

WHY WERE CONTROLS INTRODUCED?

The Anti-Inflation Board was set up in October, 1975, at a time when Canadians were trapped in a vicious circle of wages pushing prices pushing wages.

Costs of everyday items were 10.6 per cent higher than they had been in October, 1974, according to the Consumer Price Index which is published monthly by Statistics Canada. Wage demands put forward in collective agreements averaged increases over 20 per cent. The labour costs of manufacturing each item had increased by 12.5 per cent.

Other countries had already had this experience and Canada had weathered the 1973-75 recession better than most. By mid-1975, however, as many other countries were experiencing a slowing down of price and income increases, Canadian prices and incomes were continuing to rise at an alarming rate of increase.

Canadians had come to expect as inevitable these price increases and made salary demands which they felt were needed in order to protect themselves against this anticipated escalation in the rate of inflation and maintain their standard of living. This of course only perpetuated the phenomena of inflation.

WHAT WAS DONE TO CURB INFLATION?

Other countries had tried freezing wages and prices as a means of combatting inflation and it was found that this led to higher unemployment rates during the freeze and skyrocketing price and wage demands as soon as the freeze was removed.

Canada opted for a restraint program. This is a slower less spectacular approach; the results are apparent only gradually, but they are lasting.

The essential element of Canada's anti-inflation program is monetary and fiscal restraint. That is, cut back the rate of increase of both the money supply and the total spending by all governments in Canada. These methods take a long-term to show results; in the meantime, we need price and income restraint to speed up the adjustment process.

That is where the Anti-Inflation Board comes into the picture. It is only one part of the anti-inflation program and was established to ensure that the larger and more powerful economic groups restrain increases in prices and incomes.

Elements of the Anti-Inflation Program:

- monetary and fiscal policies designed to achieve a sustained economic recovery consistent with price increase targets of eight per cent in the first program year, six per cent in the second year and four per cent in the third year;
- controls on wages, salaries and professional fees to hold the growth in unit labour costs to a level consistent with the annual price target;
- controls on prices and profits that will ensure that reduced rates of cost increases are reflected in reduced rates of price increases.

These elements, along with the national productivity factor (2 per cent a year) and the experience adjustment factor mean that wages should be increasing slightly faster than prices, so that workers can gain, on average, at least a two per cent increase in real income each program year.

HIGHLIGHTS OF THE FIRST YEAR OF CONTROLS

WAGES AND SALARIES

Prior to setting up anti-inflation controls on October 14, 1975, wage and salary increases were being negotiated with the expectation that the then rate of inflation would continue or increase. Large wage increases were demanded and granted; neither employer nor employee could determine whether a settlement was "fair".

To help correct this situation the AIB set up a compensation program designed to gradually slow the rate of increase in salaries and wages; at the same time the Board's prices and profits program would be reducing the rate of increase in the cost of living. The AIB compensation regulations provide a basis protection factor equal to the annual target price level to protect workers against price increases

in the future. In addition the guidelines allow an additional 2 per cent for increase in national productivity. As a result, wage gains will be greater than price increases (as measured by the Consumer Price Index) and workers' real incomes will improve.

Here is what has been happening in the wage restraint program:

- contracts drawn up and submitted since the controls were set up (representing 2.4 million employees) allow a real gain in income of more than three per cent compared to real gains of approximately 2.3 per cent in the previous two years (based on a formula comparing wage increases to price increases);
- an estimated five million employees fall under mandatory controls;
- compensation packages under negotiation when the program came into effect called for an average increase of 15.7 per cent; the arithmetic guidelines allowed increases up to 10.5 per cent. The actual average increases allowed by the Board in these cases was 12.4 per cent. These amounts steadily decreased until the period from April to August 1976 (the last period with evaluated statistics) showed the average increase submitted was 11.3 per cent; the guidelines allowed for 9.3 per cent; actual average increase allowed by the AIB was 9.7 per cent.
- 9,643 compensation plans have been submitted to the Board at or below the guidelines; these covered 1.1 million employees;
- 7,031 compensation plans have been submitted above the guidelines; these covered 1.3 million employees;
- increases allowed by the Board tend to be slightly higher than the arithmetic guidelines since some groups must be given special consideration to avoid hardships;
- compensation guidelines provide a catch-up provision for those at the lower end of the wage scale; an employee may have his wages raised to \$3.75 an hour, regardless of the arithmetic guidelines;
- compensation guidelines limit the salaries of those in the higher income brackets, regardless of the arithmetic guidelines; higher paid employees may receive increases of no more than \$2,400, even though the arithmetic guidelines may allow the group a greater increase.

Dear Reader:

This reply card is designed to give an indication of public opinion to help the Anti-Inflation Board provide a more effective service.

Classification of respondent:

Housewife ☐ Student ☐ Professional ☐ Professional ☐
(reporting to AIB) (reporting to AIB) (not reporting to AIB) (not reporting to AIB)

Business ☐ Businessman ☐ Salaried employee ☐
(reporting to AIB) (not reporting to AIB) Unionized ☐

Non unionized ☐ Other _____

How much did you know about AIB before reading this folder?

Basic knowledge ☐ In-depth knowledge ☐

After reading this folder do you now have a better understanding of the goals and activities of the AIB?

Yes ☐ No ☐ Comments _____